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30 November 1981

MEMORANDUM FOR: Deputy Director
National Foreign Assessment Center

FROM : 25X1
Chief, Economics Division, OGI

SUBJECT : NFAC Research, Production, and Collection Effort
on Foreign Industrial Competition: Priority
Issue #13

1. Attached is the report of the Agency Working Group on Foreign Industrial Competition. The Group has concluded that there is substantial interest within the US policymaking community on this subject and that NFAC can play an important role in providing needed analytical support.

2. The Group found it useful to place analysis relating to foreign industrial competition within three separate research themes:

- o technological and industrial strategies employed by foreign governments;
- o international competitive environments facing key industries; and
- o trends in underlying productive factors which shape competitive positions of affected industries.

3. In addition, the Group recognized that the quality of analysis depends heavily on domestic and overseas collection of overt data, selected clandestine collection, and foreign language translation capabilities. Therefore, a fourth theme--support--was added to the package.

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4. The production and collection plan outlined in the attached report is very ambitious in view of the analytical complexities involved and present constraints on analysis, collection, and translation. However, current Administration initiatives in the area of industrial restructuring make rapid progress in the program imperative. Completion of the 1982 collection, research, and production program requires the following enhancements:

- o allocation of additional funding for external contracts needed to fill priority research gaps;
- o implementation of proposed scholar-in-residence and industrial exchange programs;
- o priority hiring of industrial economists within OGI and a commensurate increase in the T/O allocated to the research and analysis of foreign industries;
- o modifying regional office production programs to ensure completion of key studies on foreign industrial policies, and;



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5. In general, members of the Group responded enthusiastically to this opportunity to improve NFAC work on foreign industrial competition. While working on this project, however, it became clear to me and some others in the Group that there is a potential for misunderstanding, duplication, and unproductive rivalry among OSWR-TTC's Free World Group, OGI's Industrial Analysis Branch and [redacted]. Taking their administrative separation as given, it seems important to make differences among their respective missions as clear as possible. A trichotomy along technologies/engineering, applications/economics and policy/trade lines is crude, but useful. While recognizing each unit as a distinct entity, NFAC and Office senior management should encourage a spirit of good will and common purpose among the three units. There is an unusually high risk that rivalry will spoil the opportunity to produce good NFAC work, capable of making a difference to US interests. It would help to add a Section C item to each of the three branch chiefs' PARs: "Work in a cooperative spirit with counterparts in other NFAC elements toward developing a successful overall NFAC program on Foreign Industrial Competition." This item should be written by DD/NFAC, with suggested language provided by the Priority Issue Group Leader.

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6. The Working Group, listed below, represents a variety of Agency missions relevant to industrial analysis. [redacted] Chief of OGI's Industrial Analysis Branch, did the lion's share of the work. A number of interested consumers, particularly from Commerce and the NSC staff, offered helpful advice.

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Attachment:
As stated

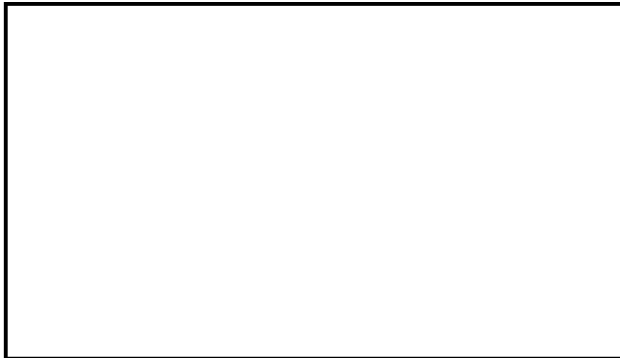
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OGI/ECD/JLC:bas (30 Nov 81)

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NFAC Priority Issue #13

Foreign Industrial Competition

Research Issue

The developed West is undergoing an industrial revolution caused by higher priced energy and the increasing availability of sophisticated electronic devices at ever lower cost. In formulating foreign economic policy, policymakers must take account of present and likely future technological and industrial developments abroad. Foreign policy will continue to become economically and technologically oriented, given the inherent conflict in the commitment of Western governments to support technological innovation, introduce state-of-the art production equipment, and ensure increasing returns to labor.

There is substantial interest within both the executive and legislative branches of the US Government concerning Free World industrial developments. This interest reflects current concerns among the public at large about applications of new technologies as well as interest among policymakers in the economic health of the Alliance. For example, the President's Cabinet Council on Commerce and Trade has launched a study on high technology with special reference to better understanding the US competitive position. This Cabinet Council study is a Commerce initiative, but it parallels interests at Treasury, USTR, State, and Defense.

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We propose that the issue of foreign industrial competition be addressed under three basic themes:

- I. The technological and industrial strategies employed by foreign governments, and the implications of these strategies for industrial structure, trade patterns, and international frictions requiring negotiation by national governments.
- II. The international competitive environment including the dynamic forces driving future competition in key industries.
- III. Trends in underlying productive factors such as capital and labor which shape the competitive positions of selected industries.

ROLE OF NFAC

Although policymakers currently have an awareness of the issues and the threats faced, decisionmaking may be complicated by misperceptions and a lack of knowledge regarding the full implications of technological and marketing developments by foreign firms.

The intelligence community is potentially well positioned to provide the needed analytical support. Other government agencies are less able to build and maintain the strong analytical base needed to follow foreign industrial developments in depth. In addition, NFAC, by virtue of its charter and perspective, is better positioned to undertake the premonitory long-term analysis, often in an interdisciplinary framework, that is most beneficial to policymakers. Supporting this analytical effort are CIA's unique collection capabilities, which offer the potential to provide inside information on foreign government and

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industry marketing strategies and their implications for US industries.

This analysis should complement the growing body of expertise--both inside and outside of government--committed to assessing foreign technological and industrial developments. NFAC analysts should develop the capability to stay abreast of industrial analysis conducted elsewhere and direct their research, collection, and analytical efforts at remaining intelligence gaps.

The Analytical Challenge

The challenge posed by industrial analysis is formidable. It requires a capability to deliver multidisciplinary analysis which integrates technological and economic factors impinging on international competitiveness along with the importance foreign governments attach to industrial development and the steps they take to nurture it. The required level of analytical sophistication necessitates a cadre of technologists and economists who know or can learn their respective industries well, in part by a continuing dialogue with private sector experts and frequent plant visitations. Country analysts will have to develop an understanding of the political dynamics associated with industrial development issues as well as a firm handle on industrial policy tools.

The quality of NFAC analysis will depend also on overseas collection and foreign language translation capabilities. Access to overtly available foreign language publications is critical to an understanding of industrial developments, and CIA's ability to

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locate, transmit, and translate pertinent literature must be enhanced. Clandestine collection is crucial to NFAC'S ability to assess the industrial strategies of foreign governments and corporations.

Existing NFAC Resources

NFAC analysts who have the expertise or have demonstrated the ability to work on the issue of foreign industrial competition are spread among several offices. The bulk, however, are divided between OSWR, principally the Technology Transfer Center (TTC), and OGI, primarily the Industrial Analysis Branch of the Economics Division.

<u>Office</u>	<u>Man-Years</u>	<u>Subject</u>
OSWR		
TTC	7-8	Civil technology
STD/LSB	1	Genetic engineering
NED	1-2	Nuclear programs
OSD	1	Space launch vehicles
OGI		
ECD/IA	8	Industrial policy and industries studies
ECD/EA	2	Underlying economic factors
EURA	2	West European industrial policies

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The Research Effort and Required Support

The analysis that should be undertaken in support of the above mission falls under three research themes. Each examines foreign industrial and technical competition from a different perspective and from varying time horizons. Following a concise statement of each theme we have proposed the needed analytical response and noted existing research gaps. The section ends with a discussion of the various efforts needed to support industrial analysis and our recommendations for putting them in place. In all areas our proposals are designed to eliminate as many gaps as possible during 1982.

1. FOREIGN GOVERNMENT INDUSTRIAL AND TECHNOLOGICAL STRATEGIES

Issue -- The pace of technological and industrial development and, by implication, present and future international competition, is affected by national industrial policies. US policymakers must be made aware of the specific goals set by foreign governments and the level of their commitment to ensuring that they are attained. The policy tools foreign governments employ and the effectiveness of these tools in achieving desired results must also be examined. Perhaps of greatest importance is the identification and quantification of present and future commercial advantages gained by industrial firms as a result of government policy.

Response -- NFAC offices should undertake a series of in-depth analyses which examine the industrial policies of major

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developed and developing countries and highlight the implications for the US economy. In addition, NFAC offices should monitor and report on new government initiatives in this area. This effort must be supported by increased overseas collection--both overt and covert--and document translation, which will provide a better understanding of current industrial policies and insights into the future intentions of foreign governments.

Intelligence Production -- To address this issue, the following papers should be completed by NFAC offices in calendar year 1982:

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Analytical Resource Gaps -- At this point, NFAC Offices expect to complete only the first and last projects on this list during 1982. Given existing resources, completing this proposed

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research program while continuing to monitor foreign industrial policies would require analysts in OGI, OSWR, and EURA to be shifted from current responsibilities.

For example, completing the proposed additions to the current draft EURA research plan would involve some cost. Publishing an in-depth French industrial policy paper in 1982 would mean pulling the senior French analyst off the account at time when the impacts of Mitterrand's programs are beginning to be felt. Preparing the EC paper would mean delaying more in-depth work on East-West economic relations.

External Contracts -- The NFAC research and production program on foreign government strategies needs to be augmented by a major contract with an outside institution capable of working on industrial issues with NFAC over the years in a synergetic fashion. Specifically, we propose a series of major, cross-cutting studies done by a firm such as [REDACTED]

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[REDACTED] For FY 82

and FY 83, we propose:

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II. INDUSTRIAL ANALYSIS

Issue -- Policymakers must be aware of the present and likely future competitive environment for industries judged crucial to the US. Depending on the industry, foreign

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competition can seriously affect regional unemployment, retard the development of production capacity that may be needed for any future surge in military production, or threaten the continued technological pre-eminence of US industry. Knowledge of the scope and manner of foreign competition--for example the respective roles played by marketing, production costs, capacity expansion, quality control, technology--is invaluable in planning US industrial policy and/or targeting specific sectors for assistance. Forward looking assessments are especially crucial to this process.

Response -- Priority must be given to building the expertise necessary to undertake the analysis of key industries. In part, this can be accomplished by a series of state-of-the-industry papers which provide the policymaker with an understanding of current industrial trends and implications for future competitiveness. As NFAC analysts become better versed in the various industries they cover and as collection and translation support is increased, a series of forward looking papers highlighting future threats to US industry and the causes for these threats will be commissioned.

Intelligence Production -- To address this issue, the following papers should be completed by NFAC Offices in calendar year 1982:

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Analytical Resource Gaps -- NFAC Offices expect to complete in 1982 all of the projects we consider of top priority. However, only three of the second and two of the third priority papers are expected to be finished by the end of next year. The remainder can be completed with current NFAC assets and external contracts but will have to be pushed into 1983. OGI's Industrial Analysis Branch is currently deficient in terms of the number and skill levels of industrial analysts. An additional four to six analysts with advanced degrees/experience in industrial analysis are required before the Office can cover the full range of industries meriting analytical attention.

External Contracts -- The effort on key industries will be supported by an aggressive use of external contractors who will either complement proposed research lines by stand-alone studies or lend expertise by way of guidance and analytical review to NFAC production efforts.

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III. UNDERLYING ECONOMIC FACTORS

Issue -- Competitive advantage is due, in part, to international differences in basic factors of production such as the cost of capital, the research and development industries, and

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the cost and availability of labor. Moreover, changes in relative factor abundance over time presage changes in the competitive position of industries. Policymakers need to be aware of present and future international differences in underlying productive factors, the role they play in competition, and pertinent foreign government policies.

Response -- The research and production effort of OGI's Economic Analysis Branch will be largely dedicated to this line of analysis. Its effort will be complemented by select monographs prepared elsewhere in OGI and in EURA.

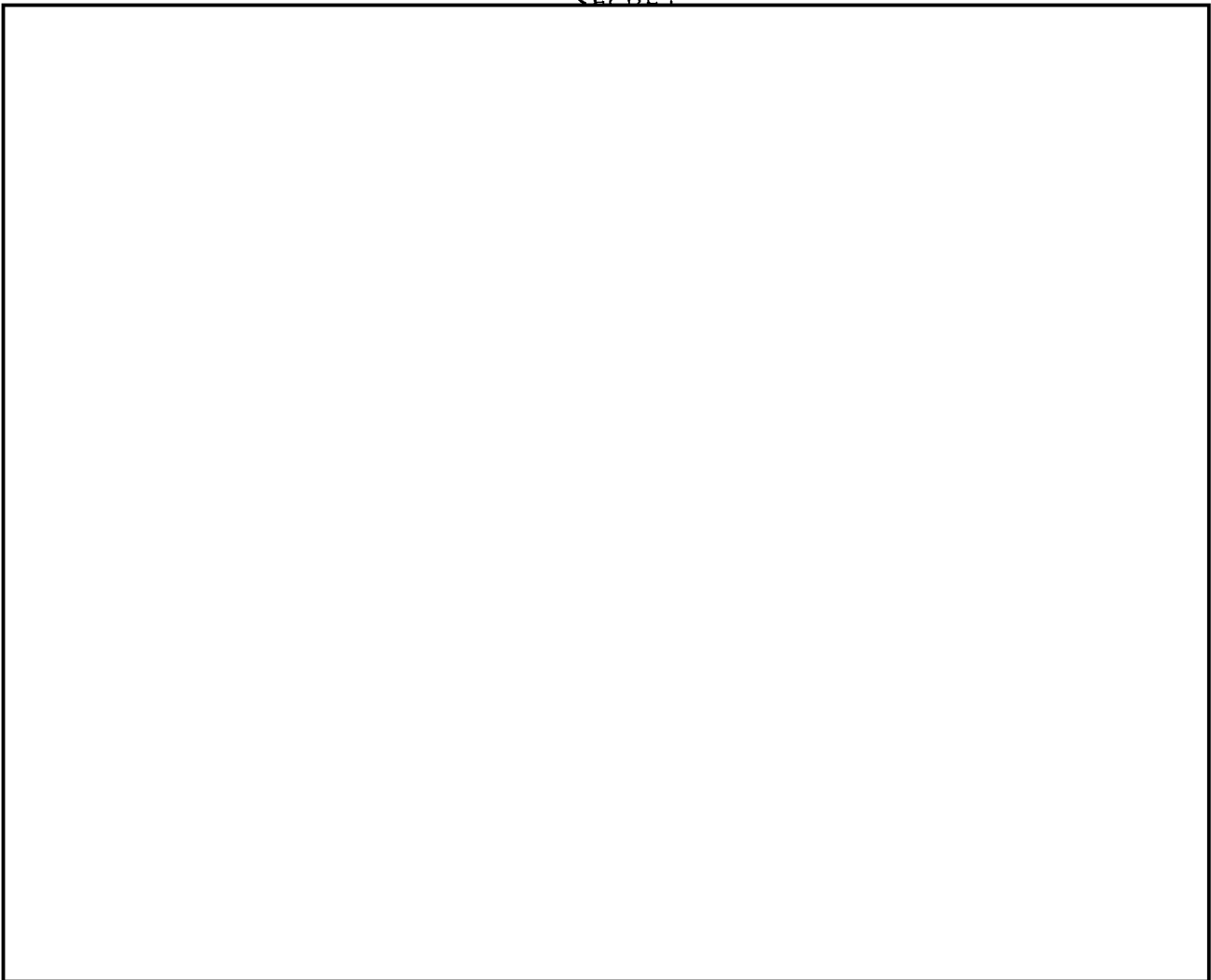
Intelligence Production -- To address this issue, the following memoranda should be completed by NFAC Offices during calendar year 1982:

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Issue -- The quality of NFAC analysis on foreign industrial and technological competition will depend, in large measure, on [redacted] collection and foreign document translation support.

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- o NFAC understanding of foreign industrial structure, the financial and production capabilities of foreign companies, and the role played by foreign governments, will depend a great deal on the acquisition of foreign language documents, foreign industrial data and by the availability of English translations of key documents on a ongoing basis.

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- o NFAC's ability to undertake premonitory analysis and to fully appreciate ongoing developments will depend critically on access to corporate and foreign government strategy by virtue of clandestine collection.

Recommendation -- To achieve the desired level of support the leader of Priority Issue #13 team will periodically convene team members from Offices actively engaged in the Issue to ensure that full use is made of private sector expertise, to coordinate and invigorate [REDACTED] collection, and to follow through on present and future program enhancements. This group will be responsible for:

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--Seeing that NFAC is properly represented in interagency meetings associated with foreign competition;

--Coordinating NFAC contracts bearing on industrial issues.

--Acting as a checkpoint for collectors to ensure that requirements are not duplicative or imprecise.

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--Carrying out D/NFAC's directive that an industry exchange program be established whereby select NFAC analysts will be temporarily detailed to US firms and select representatives of US industry spend up to a year working in NFAC line offices.

In addition, we recommend that:

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language positions, but none for S and T. All of these additions are based on pre-existing requirements and will not, as things stand, be available for supporting work on this Priority Issue.

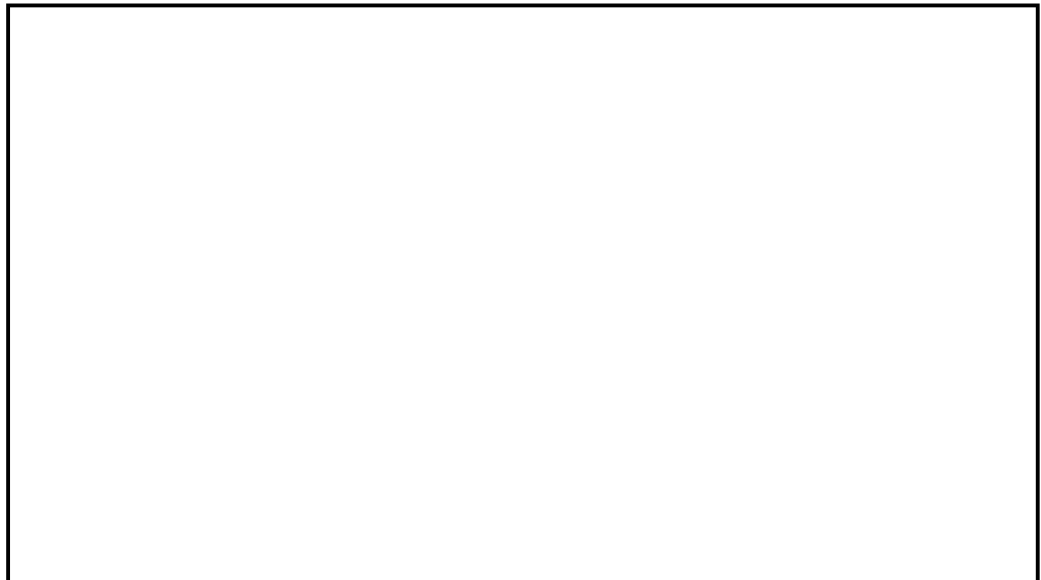


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Finally, members of the team have made representation to the director of the foreign attache service at Commerce, Erland Heginbotham, on the need for increased reporting and forwarding of overt documents to NFAC. He replied that he was deeply sympathetic, but that his resources were fully occupied with direct commercial functions. Similar requests have been made in the past to State and Treasury with the same result. Therefore, we propose that:



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